

COUNCIL AGENDA: 5-11-04
ITEM: 3.5

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Kay Winer

SUBJECT: CONVENTION CENTER and
CULTURAL FACILITIES RFP

DATE: May 3, 2004

Approved

Date

5/5/04

RECOMMENDATION

Adoption of a resolution authorizing the City Manager to enter into exclusive negotiations for thirty (30) days with Team San José to manage and operate the San Jose Convention Center and cultural facilities for a five-year period. If negotiations are not successfully concluded at the end of the 30-day period, authorize the City Manager to commence negotiations with Global Spectrum

BACKGROUND

On June 10, 2003, the City Council adopted the Mayor's Budget Message that included direction to the City Manager to prepare a Request for Proposal for the management and operation of the San Jose Convention Center and Cultural Facilities. In response to this directive, a Request for Proposal (RFP) was submitted to Council and approved on November 25, 2003.

- The direction from Council emphasized that the primary objectives are decreasing costs of operation and increasing the occupancy and revenue producing capabilities of the facilities.
- Additionally, all Civil Service employees must be absorbed by the City or proposer, but the proposals could include innovative employment relationships, such as leasing of existing City employees by the successful proposer.

Following Council approval of the RFP, a process and timetable were developed with the intent to bring a recommendation to Council in sufficient time for transition to the new operator on July 1, 2004.

RFP Process

On December 1, 2003, the RFP was sent to ten (10) firms that currently manage convention and cultural facilities. The RFP was also posted on the City's Website. The timeline of the RFP process is summarized below:

November 25, 2003	Council Review and approval of RFP
December 1, 2003	RFP Distribution
December 15, 2003	Mandatory Preproposal Conference
December 19, 2003	Written questions by proposers due to City
January 15, 2004	Written responses distributed by the City to proposers that responded to all questions raised either at the December 15 mandatory preproposal conference or on December 19, when all written follow up questions were due from proposers.
February 23, 2004	RFPs due to City
March 22, 2004	Panel Interviews with proposers
April 22 and 29, 2004	Reconvene Interview Panel to finalize review of follow up questions and revised proformas requested by panel and concluded with a recommendation for Council approval

RFP Responses

The City received four responses to the RFP and all proposed managing and operating the Convention Center and all of the cultural facilities. Copies of the RFP are available in the City Manager's Office, should you wish to review them.

The City Employee Team

- CAE employees selected a team to develop a proposal after reviewing current business practices with the goal of streamlining operations and maximizing revenues.

Team San José

- Public Benefit Corporation formed in 2004.
- Partners to manage and operate include CVB, Centerplate, and American Musical Theatre with support from the South Bay Labor Council and endorsements from OE3 and AFSCME and numerous stakeholders.
- 27 Member Board of Directors includes representation from South Bay Labor Council, CVB, hotel industry, cultural organizations and the business community.

Global Spectrum

- Formed in 1994 in Florida and operations based in Philadelphia.
- Public Facility manager for 36 facilities located in the United States.
- Subsidiary of Comcast-Spectacor.

GL Events

Extensive management of venues throughout Europe, with its North American office in New York.

- Formed in 1978.
- Expertise is in venue management.

ANALYSIS

As noted above, written proposals were received from four firms on February 23. The interview panel had an opportunity to review each of the proposers' written responses prior to the oral interviews, which were held on March 22.

Kay Winer, Deputy City Manager, chaired the broad-based interview panel comprised of the Managing Director of the Charlotte Auditorium-Coliseum-Convention Center Authority, the Director of Programming and Event Services for Theatres and Arenas in Denver, Colorado, the Budget and Policy Director for the Mayor's Office, the Hospitality Department Chair from San Jose State University, the Chair Elect of the Chamber of Commerce, the President of ABMEI, representing the City Labor Alliance, and the City's Economic Development Director and Finance Director.

Criteria and Scoring

The interview panel established the following criteria and rating scale to evaluate the proposals:

- **Qualification and Experience of firm** (20 points) – assessment of firm's prior and current experience and success in operating/managing conference centers and hotels.
- **Strength of Proposed Marketing Plan** (35 points) – clear articulation of detailed marketing strategy and associated optimal business mix to maximize "top line" revenue.
- **Financial Proformas** (35 points) -- ability of firm to clearly describe assumptions included in the financial proforma and reasonableness of assumptions used by firm.
- **Transition Plan** (10 points) – ability to implement an orderly transition plan, including commitment to implement Council adopted policies, including worker retention, labor peace, continuation of collective bargaining process, prevailing wages.

More weight was given to the strength of the marketing plan and the financial proformas than the other two criteria to place emphasis on the primary objectives established by Council: Increasing occupancy and revenues, decreasing operational costs, thereby reducing the annual operating subsidy.

Following the March 22 panel interviews, each proposer was required to respond to numerous additional questions that were raised by the panel. The proposers' responses were discussed with staff either by conference call or in individual meetings and shared with the interview panel members in advance of two additional sessions that were held on April 22 and 29.

Recommendations for Proposer Selection and Negotiation Process

All proformas submitted by the proposers were analyzed and revised by staff in consultation with the proposers, to ensure that each pro forma was comparable to the others on the basis of the revenue and expense information provided. Adjustments to the pro formas were necessary, primarily in the areas of salaries and benefits, and overhead line items to ensure accuracy and consistency. Attached is the five-year summary proforma.

On April 29, the interview panel concluded with a recommendation to the City Council that the City Manager be authorized to enter into exclusive negotiations with Team San José for thirty days to manage and operate the Convention Center and Cultural Facilities for a five-year period. In the event that the City and Team San José are unable to successfully conclude negotiations by the end of the thirty-day period, the panel recommends to the City Council that the City Manager be authorized to commence negotiations with Global Spectrum, the next highest rated firm.

If negotiations are concluded with Team San José within the thirty-day period, the Agreement will be brought to Council for approval prior to the July recess. Should negotiations not be successful with Team San José, negotiations will commence with Global Spectrum immediately and the Agreement brought to Council at the beginning of August 2004.

Team San José

Team San José is a newly formed, locally based, not-for-profit public benefit corporation. Its partners to manage and operate the facilities include the CVB, Centerplate, currently under contract with the City to provide food and beverage services and the American Musical Theatre. The Team San José 27 member board of directors includes representation from the South Bay Labor Council, the hotel industry, local cultural and performing arts organizations and the business community. The structure of the 27 member Board of Directors is attached.

Team San José's proposal requires the lowest five-year subsidy from the City in comparison to the other three proposers. Team San José states that through aggressive marketing efforts, a much higher occupancy of the Convention Center and Cultural Facilities will be achieved, resulting in greatly increased revenues. In addition, 13 filled City positions, of which 12 are civil service with a cost of \$1.5 million for salaries and benefits would be eliminated. Employees positions will be placed in the City organization per provisions of the Council approved Competition Policy without reduction in pay. Due to the current budget situation, other position reductions in the City organization will be necessary. In its reorganization effort, Team San José plans on hiring five new staff, including a General Manager and VP of Operations.

In response to questions regarding the feasibility of achieving revenues over the five-year period that are approximately 23 to 28% higher than any of the other proposers, Team San José responded in writing that though the revenue projections are aggressive, they were the result of a thorough analysis and successfully tested against the market place. Team San Jose stated further that as the knowledgeable and experienced insider, they are confident that the projections can be met.

Team San José's analysis included a review of the existing and tentative business on the calendar and forecasted increased businesses opportunities resulting from greater operational flexibility, more profitable space utilization, and a higher overall efficiency of customer interface and operations that would be facilitated by implementing a common technology platform.

Although all pro formas submitted by the proposers revealed a net loss at the Convention Center and Cultural Facilities over a five year period beginning in FY 04-05 and ending in FY 08-09, Team San José's pro forma revealed the smallest net loss over this period. Below is an overview of these figures (in \$):

Year 1	Year 2	Year 3	Year 4	Year 5	Total
(2,036,376)	(1,063,879)	(688,419)	(304,436)	(251,907)	(4,345,017)

As a comparison, the subsidy to the current operations of the Convention Center and Cultural Facilities is estimated at \$5 million for FY 2003-04 and \$3.9 million that has already been forecasted for FY 2004-05 through the current budget process. The subsidy would be decreased as a result of staff reductions.

It is recommended that the Agreement provide for ongoing monitoring of the revenues and regular reporting to Council on the progress of achieving the projections. It is further recommended that the City engage outside consultant services to assist in this effort.

The proposed management fee for the five-year period is \$750,000.

Global Spectrum

As mentioned previously, the panel recommends negotiating with Global Spectrum, the second highest rated firm, in the event that the City and Team San José are unable to conclude negotiations in thirty days. Global Spectrum's primary business is managing public assembly facilities, including American Royal Exposition Complex, Kansas City, MO; Greater Richmond Convention Center, Richmond, Virginia; Pinellas Expo Center, Pinellas, Florida; Overland Park Convention Center, Overland, Kansas; and Everett Events Center, Everett, WA. Currently, Global Spectrum does not manage any facilities in California and is motivated to move into this market.

Global Spectrum's revenue projections over the five-year period are consistent with the other proposers, excluding Team San José. Their proposal retains City staff, with the exception of 21 positions, at a cost of \$1.6 million in salaries and benefits. Global Spectrum also plans on hiring some new staff, including a General Manager and Assistant General Manager for Cultural Facilities. Under the Competition Policy, affected employees will be placed in the City organization with no reduction in pay. Though Global Spectrum's projected subsidy is greater than Team San José's, it is still considerably less than the City's recent experience.

Below is Global Spectrum's projected net loss at the Convention Center and Cultural Facilities over the same five-year period:

Year 1	Year 2	Year 3	Year 4	Year 5	Total
(1,952,491)	(1,918,385)	(1,933,477)	(1,921,784)	(1,930,791)	(9,656,928)

Global Spectrum proposes a management fee that totals \$890,000 over the five-year period.

EMPLOYEE RETENTION UNDER THE "COMPETITION POLICY"

The Competition Policy contains a "no lay-off" provision for employees covered under the Civil Service rules. Both of the proposals under consideration eliminate civil service positions, as well as the non-civil service Deputy Director of CAE, who serves as the General Manager of the Convention Center. Employee Services will be responsible for addressing the seniority, "bumping" and redeployment of Civil Service employees whose positions are eliminated as a result of implementing either of the proposals. The Competition Policy states that employees whose positions are eliminated through this process will not be subject to any reduction in pay. If an employee whose position is not subject to elimination with the new operator, and prefers not to remain at the Convention Center or Cultural Facilities, he or she can request to be placed on the City's transfer list.

The City Manager's Office will work with the Deputy Director (General Manager of the Convention Center) on a transition plan.

SUMMARY OF ISSUES RELATED TO PROPOSED CONTRACT TERMS

Team San José's proposal presents a truly unique arrangement between government and the private sector. Some of the key issues that will need to be resolved during contract negotiations include:

- The contractual relationship between and among the three entities must be specified: City, CVB, and Team San José.
- Whether or not the existing City contract with Centerplate for food and beverage services that expires in January 2005 will be renewed without a competitive process. (Centerplate is one of the partners in Team San José. Will the contract for food and beverage services be with the City or with Team San José.
- The current employees at the convention center and cultural facilities that remain will be managed by Team San José; the rights of civil service employees and obligations of Team San José as their supervisor must be clearly articulated. Additionally, Team San José's status as the employer may subject them to state conflict of interest laws governing public officials and employees.

- The buildings remain as public facilities and must, therefore, be managed in accordance with applicable legal provisions, including First Amendment access, due process, equal protection, as well as all applicable City regulations and requirements, such as non-discrimination and prevailing wages.
- The City will continue to be subject to risk of liability claims brought by third parties. In the event that a claim is made which is not covered by Team San José's insurance coverage, the City may face liability without recourse to any significant assets
- The Agreement should provide for ongoing monitoring of revenues and operations, as well as regular progress reports to the Council. Outside, industry expertise to assist staff in these activities is strongly recommended.
- Other major areas to be covered in the Agreement include: business terms and conditions, e.g., Default and Termination, Insurance and Indemnity; Annual budget preparation and submission; City oversight of books and records; and contracting authority of the Operator.
- The Board of Directors includes members with separate and direct economic interest in various facilities and programs. A review of each of these relationships for potential conflict of interest is essential.

PUBLIC OUTREACH

Not applicable.

COORDINATION

This report was coordinated with the City Attorney's Office, and the Finance Department.

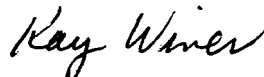
COST IMPLICATIONS

Costs to absorb City employees who will not be retained under the proposed operator range from an estimated \$1.5 million in Team San José's proposal to \$1.6 million in Global Spectrum's proposal.

The City is projected to decrease its subsidy for operating and managing the Convention Center and Cultural Facilities in each of the five years of the proposed Agreement with either proposer.

CEOA

Not a project.



Kay Winer
Deputy City Manager

	CITY TEAM	TEAM SAN JOSE	GLOBAL	GL EVENTS
Revenues	Note 1	Note 2		
Building Rental	23,640,804	30,273,653	25,573,952	24,566,813
Electrical/Utility Services	7,023,772	5,641,934	4,847,110	5,843,997
Food and Beverage Services	32,308,220	9,247,310	7,430,426	7,158,024
Labor	621,634	615,859	640,972	650,221
Other *	6,164,602	6,904,871	6,847,039	8,030,077
Total Revenue	69,759,032	52,683,627	45,339,499	46,249,132
Direct Expenses				
Salaries and Benefits	36,013,897	29,548,659	28,599,199	29,107,762
Contract Svc, R&M, Supplies	8,741,915	5,637,599	5,531,350	7,180,319
Sales and Marketing	722,000	0	398,184	1,043,722
Utilities	13,255,236	9,946,136	9,414,699	12,471,839
Food and Beverage	16,291,090	0	0	0
Other	1,482,650	1,651,426	1,343,211	2,185,821
Total Direct Expenses	76,506,788	46,783,820	45,286,643	51,989,463
Indirect Expenses				
Administrative and General	2,473,811	3,705,279	3,190,788	2,426,503
Insurance & Workers' Comp	2,283,763	1,963,946	1,614,037	3,596,182
Overhead	3,262,340	2,626,578	2,516,576	2,707,012
Other	1,199,021	1,199,021	1,499,021	0
Total Indirect Expenses	9,218,935	9,494,824	8,820,422	8,729,697
Total Expenses	85,725,723	56,278,644	54,107,065	60,719,160
Gross Operating Profit (Loss)	(15,966,691)	(3,595,017)	(8,767,566)	(14,470,028)
Management Fees	0	750,000	889,362	1,711,209
Net Profit (Loss)	(15,966,691)	(4,345,017)	(9,656,928)	(16,181,237)

Includes A/V Services, Equipment Rental, Networking Services, Telecommunication Services and Other Revenue.

Note 1: City Team assumes in-house F&B which is estimated to add \$4.3 million to net profit over 5 years.

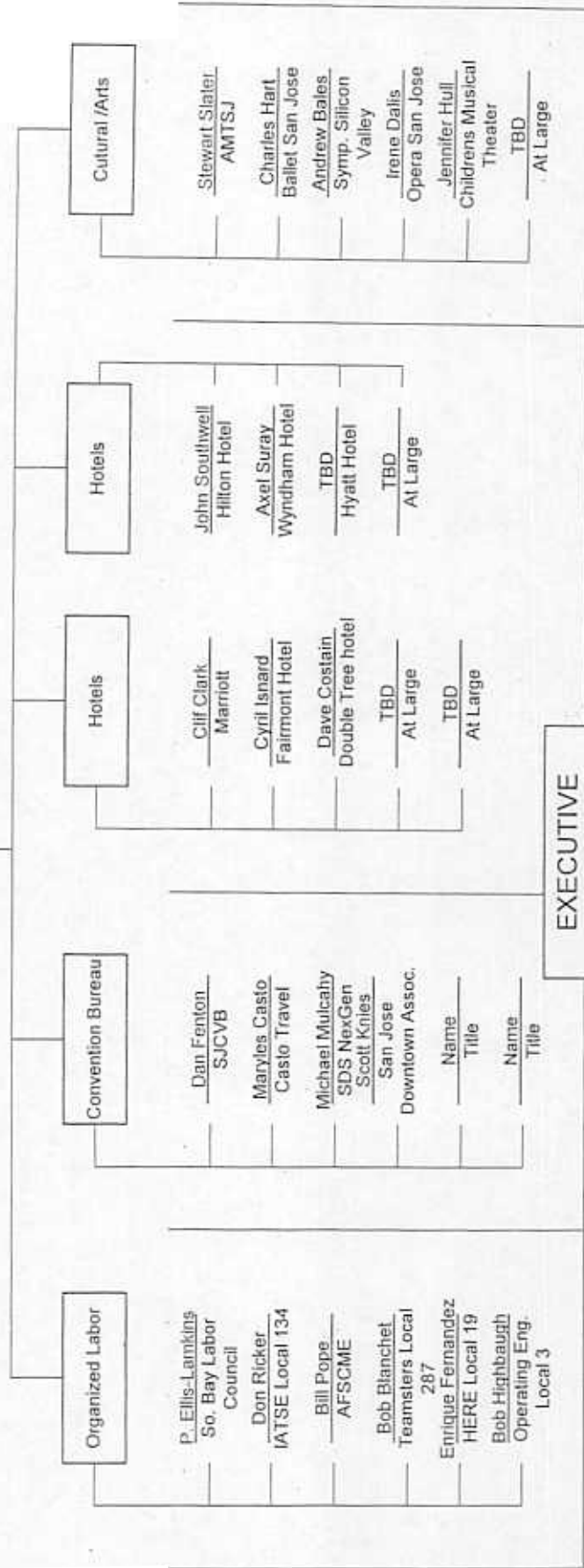
Note 2: Building Rental revenue ranges from 18% to 28% higher than all other proposers.

Executive Committee Structure

TEAM SAN JOSE, Inc.



BOARD OF DIRECTORS



John Southwell
Hotels

P. Ellis-Lankins
Organized Labor

Dan Fenton
SJCVB

Team San Jose
CEO

Cliff Clark
Hotels

Stewart Slater
Cultural/Arts